

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 7, 1938, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Paulger, Chief of the Division of Examinations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Vest, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Gardner, Senior Economist in the Division of Research and Statistics

There was presented a letter to Mr. Walsh, retiring Chairman and Federal Reserve Agent at the Federal Reserve Bank of Dallas, which had been prepared for the signatures of the members of the Board and which read as follows:

"Your letter of December 31, 1937, to Chairman Eccles, has been read with a sympathetic understanding of your mixed emotions in relinquishing your duties as class 'C' director and as chairman and Federal reserve agent at the Federal Reserve Bank of Dallas after serving in those capacities for more than twelve years. However, the friendly sentiments conveyed in your letter, the knowledge that our personal relationships will remain unchanged, and the assurances of your continuing interest in the welfare of the System, are sources of consolation to all of us that mitigate the sense of loss incident to the termination of your official connections.

1/7/38

-2-

"We take this opportunity to thank you for your unflagging loyalty and devotion to duty during this long period of public service with the Federal Reserve System and to express our sincere appreciation for the spirit of helpfulness and cooperation which you have uniformly displayed in assisting the Board in the discharge of its responsibilities. Individually, as well as officially, we wish you good health and happiness during the years to come, and as a further evidence of our affection and esteem this letter is being spread upon the official minutes of the Board."

Approved unanimously.

There was also presented a letter to Mr. F. W. Peck, Class C Director of the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of January 3, 1938, stating that, in view of the fact that you are assuming the presidency of the Federal Land Bank of St. Paul on February 1, 1938, and the laws under which that institution operates prohibit the continuation of your service as class 'C' director of the Federal Reserve Bank of Minneapolis, you are submitting your resignation as class 'C' director to become effective as of the close of January 31, 1938.

"The Board appreciates the service you have rendered as a director of the Federal Reserve Bank of Minneapolis since your appointment last April, and accepts your resignation as submitted with sincere regret. In taking this action the Board hopes that your interest in the welfare of the System will continue after the termination of your official connection with the Federal Reserve Bank of Minneapolis and suggests that, if at any time you have any comments or suggestions to make with regard to the System, you do not hesitate to communicate them to the board of directors of the reserve bank or to the Board in Washington."

Approved unanimously.

Mr. Davis submitted the recommendation of the Personnel Committee that Mr. Walter C. Coffey, Dean, Department of Agriculture, University of Minnesota, be appointed a Class C director of the Federal Reserve Bank

1/7/38

-3-

of Minneapolis for the unexpired portion of the term ending December 31, 1939, to succeed Mr. Peck on February 1, 1938.

The appointment of Mr. Coffey was approved unanimously as recommended by the Personnel Committee.

Mr. Davis also submitted the recommendation of the Personnel Committee that he be authorized to ascertain from Mr. Dolph Briscoe, stock-raiser, Uvalde, Texas, whether he would accept appointment, if tendered, as a director of the San Antonio Branch of the Federal Reserve Bank of Dallas for the unexpired portion of the three-year term ending December 31, 1940.

Approved unanimously.

At this point Mr. Gardner withdrew and Mr. Wyatt joined the meeting.

Reference was made to a memorandum dated December 7, 1937, from Mr. Goldenweiser on the subject of improvement of statistical information collected on business conditions. The memorandum, copies of which had been furnished to the members of the Board, outlined a procedure for the development, for the purpose of supplementing available statistics, of information through (1) additional contacts with business men by Federal reserve officials, and (2) the expansion and improvement of statistical information along the principal lines of production, orders and inventories, and financial statistics of industry. The procedure outlined in the memorandum was discussed and Mr. Goldenweiser suggested

1/7/38

-4-

that the next step in the development of the procedure would be to present the matter to the Presidents of the Federal reserve banks the next time they are in Washington.

At the conclusion of the discussion it was understood that Mr. Goldenweiser would prepare a memorandum for use in presenting the procedure at a meeting with the Presidents of the Federal reserve banks and that the entire matter would be given further consideration at the meeting of the Board on January 14, 1938.

Consideration was then given to a memorandum dated January 5, 1938, from the Division of Examinations transmitting the application of the "Liberty Bank and Trust Company", Allentown, Pennsylvania, for membership in the Federal Reserve System. It was stated that in 1932 the deposits of the bank, which previously had been a member of the Federal Reserve System, were assumed by another bank in Allentown, that since that time the bank had continued to exercise general fiduciary powers and to service the mortgages and real estate underlying guaranteed participation certificates which it had sold, and that it now planned to reengage in the acceptance of deposits and desired readmittance to membership in the Federal Reserve System.

The application was discussed in the light of the information contained in the memorandum from the Division of Examinations and unanimous approval was given to a letter to the board of directors of the Liberty Bank and Trust Company stating that, subject to the conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H,

1/7/38

-5-

and the following additional conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Philadelphia:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
- "7. Such bank shall make adequate provision for depreciation in its banking house.
- "8. At the time of admission to membership, such bank shall have assets substantially the same in amount and character as shown in the pro forma statement as of November 20, 1937, submitted with the application for membership, and shall have paid up and unimpaired capital stock of at least \$325,000, surplus of at least \$175,000, and undivided profits of at least \$25,000.
- "9. Such bank shall not acquire, except for debts previously contracted, any mortgage certificates guaranteed by the Liberty Trust Company, Allentown, Pennsylvania, or any receipts for mortgage certificates which may be issued by the liquidating Trustees pursuant to the printed Plan for the Reorganization of the Liberty Trust Company submitted with the application for membership, nor shall it make loans or other advances on the security of such certificates or receipts, without first obtaining the approval of the Federal Reserve Bank of Philadelphia.
- "10. Such bank shall not, without first obtaining the approval of the Federal Reserve Bank of Philadelphia, acquire through purchase or otherwise, any assets of the mortgage pool or of the Indemnity Trust fund referred to in such Plan for Reorganization, nor make any loans for the benefit of the mortgage pool or of the Indemnity Trust fund."

The letter also contained the following special comments:

1/7/38

-6-

"It is understood that the Reserve bank has been assured that, if in the future there should develop, in the opinion of the Reserve bank, the need for an additional executive officer, there will be no hesitancy on the part of your bank to engage the services of such an official. The application for membership in the System has been considered in the light of this assurance and has been approved by the Board of Governors with the understanding that a capable executive will be employed if the need arises.

"It is understood also that the bank has been assured that it will be admitted to membership in the Allentown Clearing House Association, and the application for membership in the System has been approved with the understanding that the bank will become a member of the clearing house.

"It is noted that the bank possesses certain unusual powers which it is not exercising at this time, such as the power to execute surety bonds in connection with transactions involving the shipment of goods or commodities. Attention is invited to the fact that, if the bank should hereafter desire to exercise such powers, it would be necessary under condition numbered 1 to obtain the Board's permission before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

In connection with the above matter, approval was also given to a letter to the President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Liberty Bank and Trust Company', Allentown, Pennsylvania, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Secretary of Banking of the Commonwealth of Pennsylvania for his information.

"It is understood that the bank will be a member of the Allentown Clearing House Association and you will note from the letter to the bank advising of the approval of its application for membership that its membership has been approved with that understanding."

1/7/38

-7-

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Vest and Leonard left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 6, 1938, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Taylor, Secretary pro tem of the Federal Reserve Bank of Cleveland, stating that the Board approves the establishment without change by the New York bank on January 6, 1938, and by the Philadelphia and Cleveland banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Miss Dorothy E. Peeples, reading as follows:

"The Board of Governors of the Federal Reserve System has accepted, with regret, your resignation as submitted in your letter of January 4, 1938, effective as of the close of business on January 10, 1938, and wishes you success in your new position."

Approved unanimously.

Letter to Mr. Donald Comer, President and Treasurer, Avondale Mills, Birmingham, Alabama, reading as follows:

"Receipt is acknowledged of your letter of January 4, 1938, to Chairman Eccles tendering your resignation as a

1/7/38

-8-

"class 'C' director of the Federal Reserve Bank of Atlanta.

"The Board fully appreciates your reluctance to dispose of your stock holdings in the First National Bank of Birmingham and to sever your connection as a director of that institution, particularly since you have served in that capacity for a great number of years. In the circumstances, the Board accepts with sincere regret your resignation as class 'C' director of the Federal Reserve Bank of Atlanta for the three-year term ending December 31, 1940. In taking this action the Board is pleased that you will continue to serve as a director of the Birmingham branch of the Federal Reserve Bank of Atlanta and will therefore remain in the official family of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the recommendations contained in your letters of December 31, 1937, the Board approves the appointment as chief examiner for your bank of Mr. W. R. Diercks, who for some time has been serving as acting chief examiner, and interposes no objection to the further extension to April 30, 1938, of the leave of absence originally granted Mr. Carol L. Pitman in April 1936 in order that he might assist the Federal Deposit Insurance Corporation."

Approved unanimously.

Letter to the board of directors of the "Genesee Valley Trust Company", Rochester, New York, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H, and the following additional conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York:

1/7/38

-9-

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$723,225 as shown in the report of examination of such bank as of September 25, 1937, made by an examiner for the Federal Reserve Bank of New York."

The letter also contained the following special comments:

"It has been noted that, in December 1936, the board of directors of the bank adopted a resolution committing the institution to the completion of a certain program designed to strengthen the capital position and to accomplish other improvements in the condition of the bank before further requests would be made for the retirement of the 'A' debentures held by the Reconstruction Finance Corporation, other than for requirements for sinking fund provisions or to gain the benefit of a reduction in interest rates on the debentures, or before any dividends would be paid on common stock. The bank's application for membership in the Federal Reserve System has been considered in the light of the program to which the institution is committed under the resolution, and the application has been approved by the Board of Governors with the understanding that the provisions of the resolution will be carried out.

"Estimated losses as shown in the report of examination made in connection with the application for membership include estimated losses in loans to certain directors, officers, and their interests. The Board feels that loans to directors and officers of a bank and their interest should be above criticism at all times, and it is expected that careful consideration will be given to such loans in an effort to remove all causes for criticism."

Approved unanimously, together with
a letter to Mr. Harrison, President of the

1/7/38

-10-

Federal Reserve Bank of New York, reading
as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Genesee Valley Trust Company', Rochester, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York for his information.

"It has been noted from the presentation memorandum accompanying the application that, in the event the bank completes its membership, attention will be called to the fact that certain accounts now being carried as savings deposits and the present practice of holding pass books of depositors and paying checks drawn against their savings accounts do not conform to the requirements of the Board's Regulation Q. It has been noted, also, that certain interlocking relationships, which are commented upon in the presentation memorandum, may be affected by section 8 of the Clayton Act and section 32 of the Banking Act of 1933, and it is assumed that the bank and directors involved will be acquainted with such provisions. In connection with Mr. Lewis S. West, the presentation memorandum points out that he could continue his interlocking relationship until January, 1939, if the applicant bank is admitted to membership after the next election of directors in January, 1938, but suggests that he would have to terminate his relationship immediately if it is admitted before that time. However, the basis for this latter suggestion is not clear, and therefore if the point should become material, you may wish to submit it to the Board for a ruling before advising Mr. West definitely.

"It is not understood that there has been any change in the laws of the State of New York providing that, in the event of dissolution or liquidation, any money received by a trust company in that State as guardian, trustee, executor, administrator, committee, or depositary is protected by a preference in all of the assets of the trust company over its general creditors. In the circumstances, and in accordance with previous advice, you are authorized on be-

1/7/38

-11-

"half of the Board to waive compliance by the Genesee Valley Trust Company with the requirements of the condition of membership numbered 6 above under the same terms and conditions as are contained in the Board's letter of July 17, 1935, to Mr. Case."

Telegram to Mr. Neely, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Barnett National Securities Corporation", Jacksonville, Florida, entitling such organization to vote the stock which it owns or controls of "The Barnett National Bank of Fort Lauderdale", Fort Lauderdale, Florida, at all meetings of shareholders of such bank. The conditions contained in the telegram upon which the permit was authorized were as follows:

- "(1) Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter X-9385, except that (a) paragraphs numbered 1, 2, 4 and 5, shall be omitted and remaining numbered paragraphs appropriately renumbered, and (b) all lettered paragraphs and introductory sentence immediately preceding them shall be omitted.
- "(2) Prior to issuance of general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (Form P-3) executed by Barnett Bank of Avon Park and Exhibit N (Form P-4) executed by applicant and consented to by Barnett Bank of Avon Park, or furnish assurances satisfactory to you that it will deliver such exhibits within 30 days after issuance of general voting permit authorized herein.

1/7/38

-12-

"(3) Prior to issuance of general voting permit authorized herein, Federal Reserve Bank of Atlanta shall ascertain and be satisfied that (a) applicant has made all charge-offs or eliminations described in paragraph 1 of form of agreement accompanying Board's letter X-9385, and (b) each of applicant's subsidiary banks has made all charge-offs or eliminations described in paragraph 2 of form of agreement accompanying Board's letter X-9385."

Approved unanimously.

Letter to Mr. Sihler, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your telegram of December 28 to Mr. Parry with respect to the provisions of section 6(c) of revised Regulation T regarding guaranteed accounts.

"Section 6(c) provides that in order for a guarantee to be given effect pursuant to that provision a duplicate original of the guarantee must have been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected. It is understood that you present the question of whether this requirement would be satisfied if the creditor filed the original guaranty with the secretary of an appropriate exchange and merely kept a facsimile for his own records. The Board is of the opinion that such procedure would comply with the filing requirements of section 6(c).

"If a guarantee was outstanding under the old regulation the adjustments made for such a guarantee pursuant to the old regulation need not be carried over to the new regulation. In effect, all adjustments for guarantees under the old regulation may be considered as having been automatically eliminated so far as the new regulation is concerned, and transactions effected under the old regulation pursuant to such an old guarantee need no longer be reflected in the guarantor's account.

"A guarantee may not be given effect under section 6(c) if the guarantor is a creditor, and you ask whether a partner of a member firm who himself is not a member of an exchange is a creditor within the meaning of this provision. The term 'creditor' includes every member of a national securities exchange and the term 'member' as defined in section

1/7/38

-13-

"3(a)(3) of the Securities Exchange Act includes 'any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.' Accordingly, a partner such as you describe would be a creditor within the meaning of this provision."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

Ronald Hanson
Vice Chairman.